

NOTE FOR WEDNESDAY MEETING

MARKETS: 9 DECEMBER TO 15 DECEMBER 1981

MONEY

Tighter conditions returned to the money market this week. The unwinding of previous assistance by the Bank was a factor in the shortage every day. Additional factors on Friday and Tuesday, when extremely large shortages were seen, were an excess of Exchequer receipts over disbursements and the seasonal increase in the note circulation.

The Bank gave assistance every day by the purchase of a combination of bank, Local Authority and Treasury bills.

Interbank rates moved sharply upwards at all maturities before the weekend not only in response to the firmer trend in US rates but also perhaps in a nervous reaction to the decline of sterling and the industrial pay news. The firming continued on Monday but the markets were calmer. Rates tended steadier on Tuesday and there was some easing at the longer end possibly encouraged by sterling's improved performance. The seven-day rate finished $3/8\%$ up on the week at 15% and the three-month rate closed $9/16\%$ higher at $15\ 1/2\%$.

The pattern of euro-sterling rates over the week broadly reflected that of domestic rates: rates firmed at all maturities with some steadying of the rises after the weekend. The three-month rate closed $9/16\%$ up on the week at $15\ 5/8\%$.

At the treasury bill tender on Friday the average rate of discount rose sharply by 0.8218 to 14.5801.

LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by $7/8\%$ to $15\ 1/2\%$. Issues amounted to £7.7 mn (£11.5 mn last week) against maturities of £16 mn.

GILTS

The market fell back over the first four days under the influence of rising US and domestic interest rates and a sharply weaker pound. Yesterday saw a modest recovery.

Signs of renewed hardening in dollar interest rates and disappointment with the November banking figures deterred investors on Wednesday, though prices recovered from the worst levels after the announcement of the November CGBR to close about 3/8 down in all sections. With sterling sharply weaker, prices continued to ease on Thursday and the decline gathered pace the following day after overnight weakness in US bonds and with domestic interest rates continuing to move up in sympathy with those in the US. Most of the pressure was felt at the short end, although all sections closed with losses of about 7/8.

After the weekend, a sharp rise in US money supply and the Polish crisis were further unsettling influences. Prices continued to ease on Monday, but ended above the worst (3/8 down in shorts and 1/2 down in longs) after US bonds opened better than expected. This firmer tendency continued in after-hours trading and the market opened about 1/2 higher yesterday morning. Sentiment was also improved by a recovery in sterling and by the Bank's money market assistance but with US bonds coming in easier again in the afternoon, some of the gains were lost: shorts closed about 1/8 - 1/4 higher with longs up to 3/8 better. The FT Government Securities Index ended the week at its lowest level since 10 November.

Over the week as a whole, prices of shorts fell by about 1 5/8 (yields of about 16% on five-year maturities) while those of longs fell by 1 3/4 (yields of 15 3/4 - 16% on 20-year maturities). Prices of the two IGs fell by less than other longs - by 3/4 (IGI) and 1/2 (IGII) - but the yields on both stocks have reached record levels: 3.2% (IGI) and 2.93% (IGII).

EQUITIES

The harder tone of short-term interest rates and fears of industrial unrest led prices to ease for most of the week.

Trading remained dull on Wednesday on fears of strikes in the coal industry and at Ford and with hopes of further interest rate cuts having receded. The following day saw an unexpected revival in institutional demand for selected leading shares which produced a 5.3 rise in the FT Index. This proved short-lived, however, and prices drifted back in quiet trading the following day.

After the weekend, the market was subject to the same gloomy influences as gilts with the fall in the US equity market a further adverse influence. The Index fell by a further 6.6 on Monday, but was little changed yesterday as consideration of the rise in industrial production in October helped offset a further sharp overnight decline on Wall Street. The Index closed at 513.5, a fall of 8.2 over the week as a whole. ICL yesterday announced a rights issue of £32 mn.

NEW ISSUES

Queue

No new issues of £10 mn or more were added to the queue which now totals £913 mn against £963 mn last week.

(init EAJG)

16 December 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

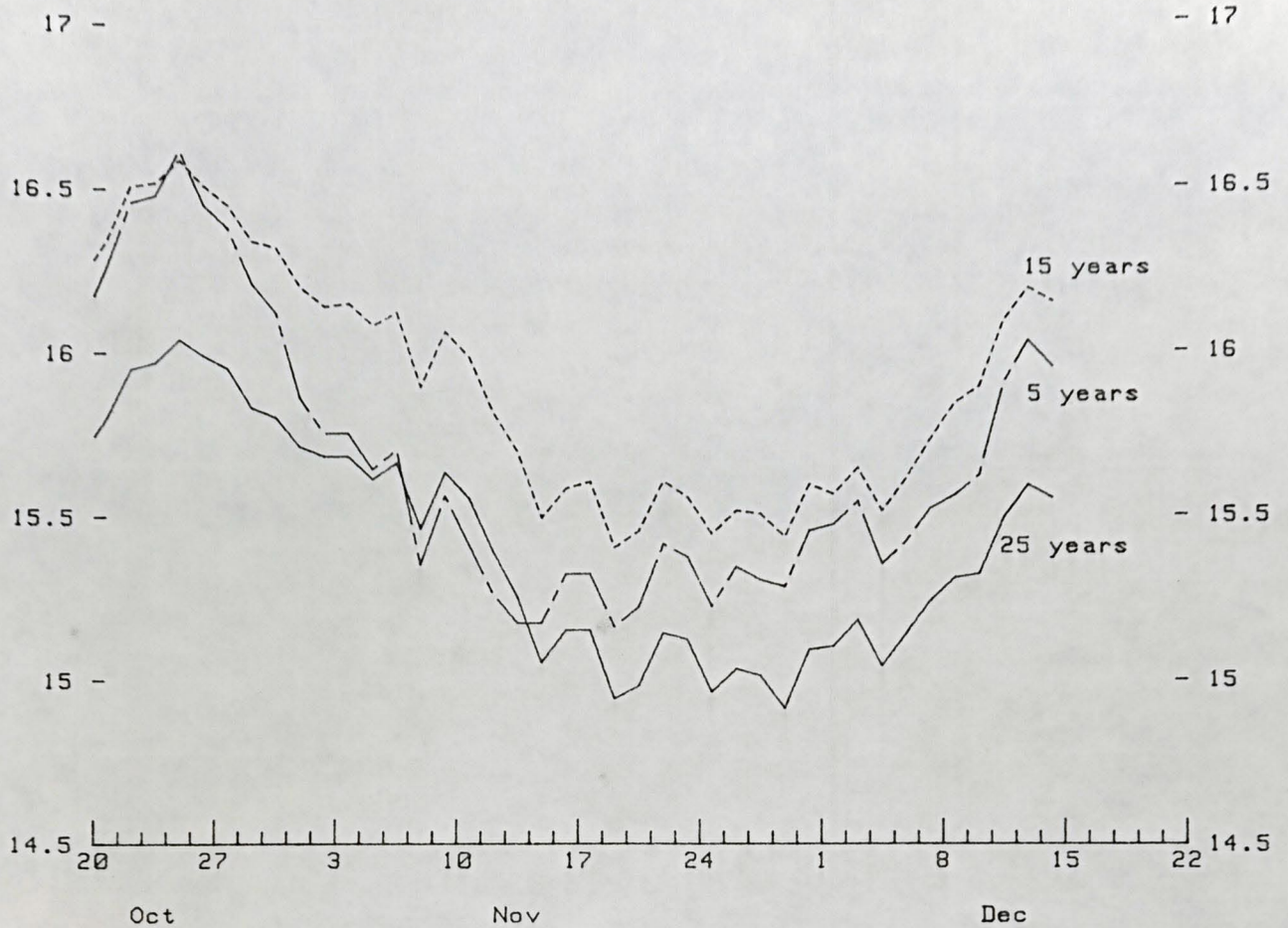
1. Transactions (cash value)

	<u>9.12.81</u> <u>-15.12.81</u>	<u>Cal Qtr</u> <u>to date</u>	<u>Fin Year</u> <u>to date</u>	<u>18.2.81</u> <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 5	- 778	- 2,207	- 2,626
Other short-dated	- 54	+ 1,292	+ 2,210	+ 2,700
	- 59	+ 514	+ 3	+ 74
Mediums	-	+ 525	+ 2,366	+ 3,100
Longs and undated	-	+ 1,444	+ 3,248	+ 4,286
Total Issue				
Department trans- actions	- 59	+ 2,483	+ 5,617	+ 7,460
CRND	+ 3	+ 107	+ 283	+ 334
Redemptions	-	- 385	- 1,228	- 1,324
	- 56	+ 2,205	+ 4,672	+ 6,470

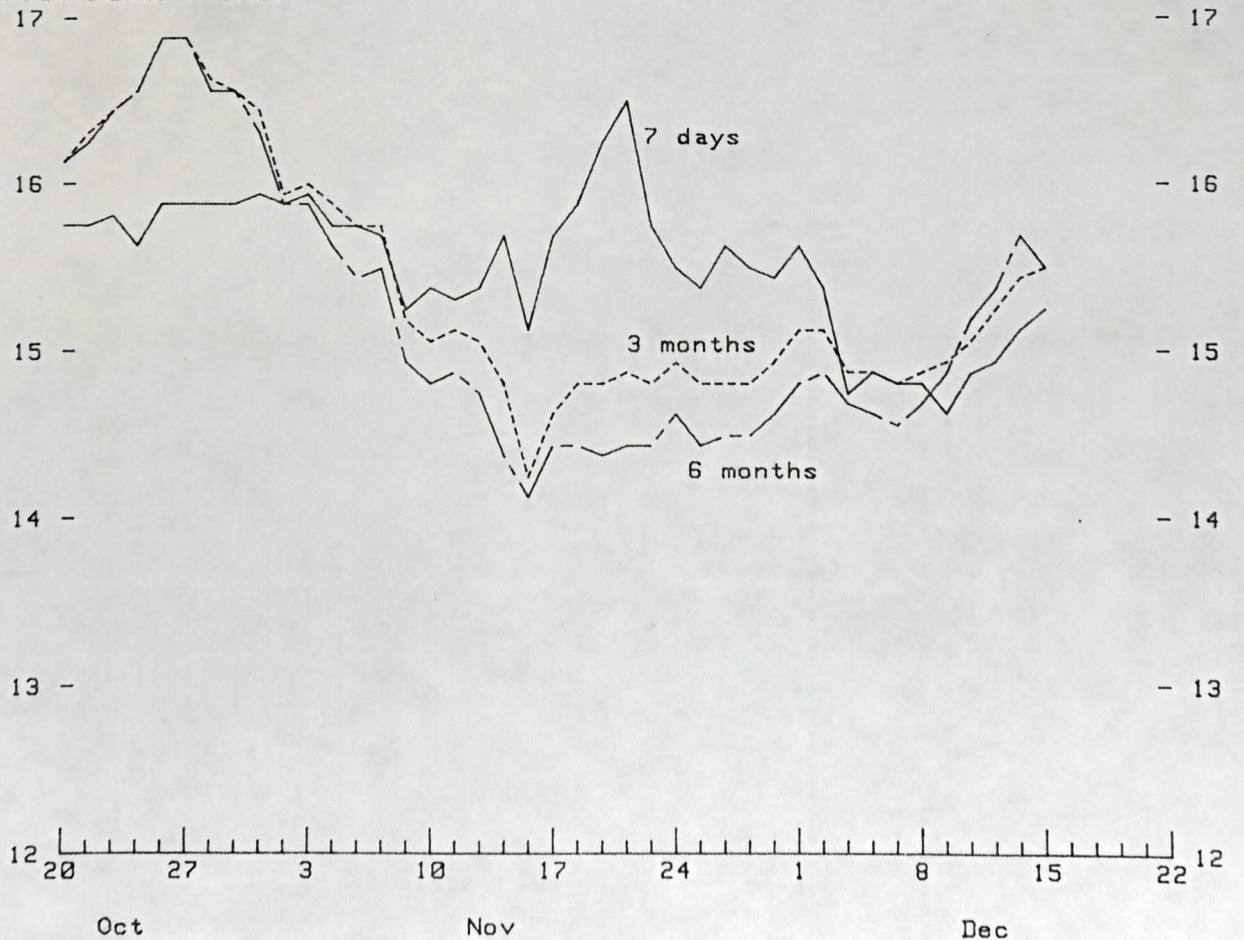
2. Redemption Yields (tax ignored)

	<u>8 December</u>	<u>15 December</u>	<u>Change</u>
12% Treasury 1983	14.51	15.41	+0.90
15% Treasury 1985	15.26	15.93	+0.67
12% Treasury 1987	15.84	16.22	+0.38
11 3/4% Treasury 1991	15.88	16.31	+0.43
13 1/2% Treasury 1994	16.00	16.41	+0.41
2% Index-Linked			
Treasury 1996	3.11	3.20	+0.09
12 1/4% Exchequer 1999	15.52	15.93	+0.41
14% Treasury 1998/01	15.64	16.01	+0.37
12% Exchequer 2013/17	14.50	14.84	+0.34
3 1/2% War Loan (Flat Yield)	12.83	13.16	+0.33

Gilt edged yields [F.T. High coupon]



Interbank rates



NEW ISSUES

	Fixed interest (excl convertibles)		Convertibles	Equities
	Domestic borrowers	Foreign borrowers		
TOTAL QUEUE*	<u>16</u>	<u>200</u>	<u>8</u>	<u>689</u>
Of which issues of 10 or more:				
Current week (16/12-18/12)				
Week 2 (21/12-24/12)				
Week 3 (28/12-31/12)				
Week 4 (4/1-8/1)				Kwik Save Discount Group PLC (rights) (7/1) 15
Week 5 (11/1-15/1)				Split Level Investment Trust (offer for sale) (11/1) 20 Candecca Resources Ltd (rights) (12/1) 10 United Engineering Ltd (rights) (13/1) 10
Week 6 (18/1-22/1)				MEPC Ltd (rights) (19/1) 70
Week 7 (25/1-29/1)		IBRD (offer for sale) (25/1) 100		Clyde Petroleum PLC (rights) (26/1) 25 Drayton Montagu Japan Trust (offer for sale) (27/1) 15 Davy Corp Ltd (rights) (28/1) 30

forthcoming

EIB
(offer for sale)
(8/3?) 100

Amersham
International
(offer for sale by
Atomic Energy
Authority)
(11/2) 50
Lloyds Bank Ltd
(rights)
(19/2) 100
The Throgmorton
Finsbury Trust PLC
(offer for sale)
(1/3) 13
Ultramar Company Ltd
(rights)
(3/3) 100
The Bowater
Corporation Ltd
(rights)
(10/3) 80
Norsk Data AS
(offer for sale)
(17/3) 10
Vickers Ltd
(rights)
(24/3) 35
Coloroll Ltd
(offer for sale)
(14/4) 15
British Transport
Docks Board
(offer for sale)
(24/5-4/6?) 50
Powell Duffryn Ltd
(rights)
(23/6) 20
Superdrug Stores Ltd
(offer for sale)
(9/7) 10

/Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	626	1,600
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	553	1,713

*Includes issues of 3 or more
/Includes issues of less than 3
øForeign borrower

